

**REPORT TO THE TWENTY-SECOND LEGISLATURE
STATE OF HAWAII
2004**

**PURSUANT TO SECTION 340E-33,
HAWAII REVISED STATUTES
RELATING TO THE
DRINKING WATER TREATMENT REVOLVING LOAN FUND
OF THE DEPARTMENT OF HEALTH**

**PREPARED BY:
STATE OF HAWAII
DEPARTMENT OF HEALTH
ENVIRONMENTAL HEALTH ADMINISTRATION
ENVIRONMENTAL MANAGEMENT DIVISION
SAFE DRINKING WATER BRANCH
WASTEWATER BRANCH
December 2003**

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Preface

September 30, 2003

This report presents the summary of the Drinking Water Treatment Revolving Loan Fund (DWTRLF) activities including financial statements for the fiscal year ended June 30, 2003. The report is divided into two sections:

Operations and Administration Section:

This section includes the introduction, economic condition and outlook, major initiatives, goals and accomplishments, and compliance matters of the Program.

The Financial Section:

This section includes the discussion of internal control, program administration and statistical information, overview of the basic financial statements, credit risks of the DWTRLF, and other information supporting the financial statements.

Pursuant to Hawaii Revised Statutes, Section 340E-33, the State Legislature requires the Director to submit an annual report on the financial position and activities of the DWTRLF.

This report was prepared by the Safe Drinking Water Branch and Wastewater Branch of the Department of Health. We believe the enclosed data are complete and accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the DWTRLF.

OPERATIONS & ADMINISTRATION SECTION

A. INTRODUCTION

The Hawaii Drinking Water Treatment Revolving Loan Fund (DWTRLF) was established by the 1997 State Legislature in order to receive the federal capitalization grants as provided for by the Federal Safe Drinking Water Act Amendments of 1996. The DWTRLF program is administered by the Safe Drinking Water Branch and Wastewater Branch of the Department of Health. Under the DWTRLF program, the State has established several activity codes to identify the source of revenues received. The DWTRLF program's primary activities include issuing loans for the construction of drinking water infrastructure projects and management and coordination of the Set-Aside Programs as defined under the Safe Drinking Water Act Amendments of 1996.

The DWTRLF program is also known as the Drinking Water Revolving Fund under Chapter 340E, Hawaii Revised Statutes (HRS) and the Drinking Water State Revolving Fund or DWSRF under Chapter 11-65, Hawaii Administrative Rules (HAR).

By helping local government entities improve and expand their drinking water infrastructure, the DWTRLF helps to protect the public health and the environment of Hawaii. Equally important, the DWTRLF Program plays a vital role in the development and economic vitality of Hawaii's communities.

Chart 1 illustrates the dollar volume of loans that the DWTRLF Program has made per state fiscal year:

Chart 1.

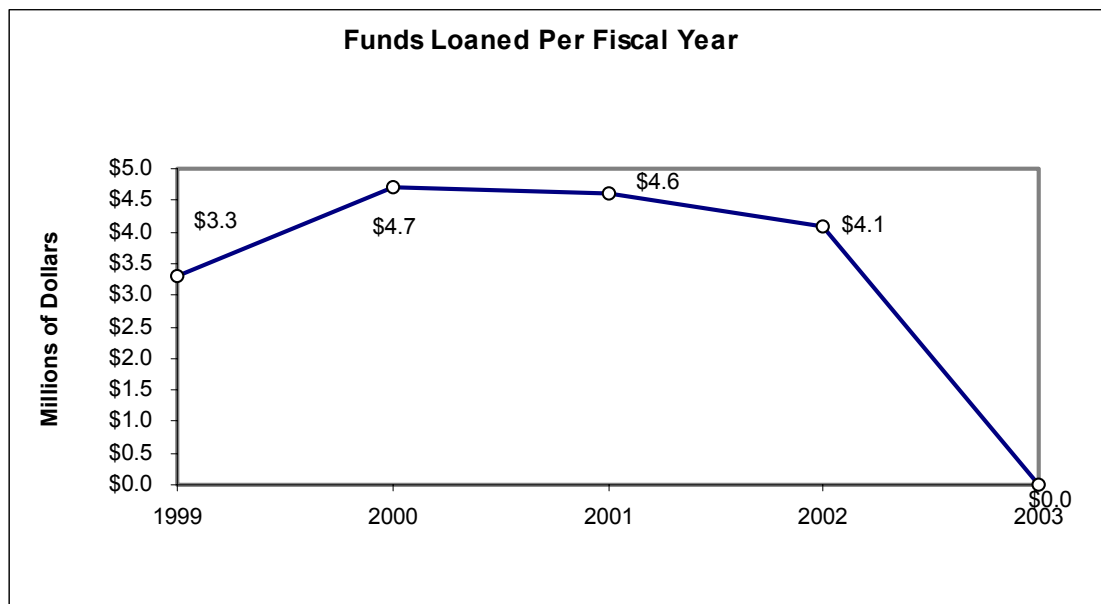
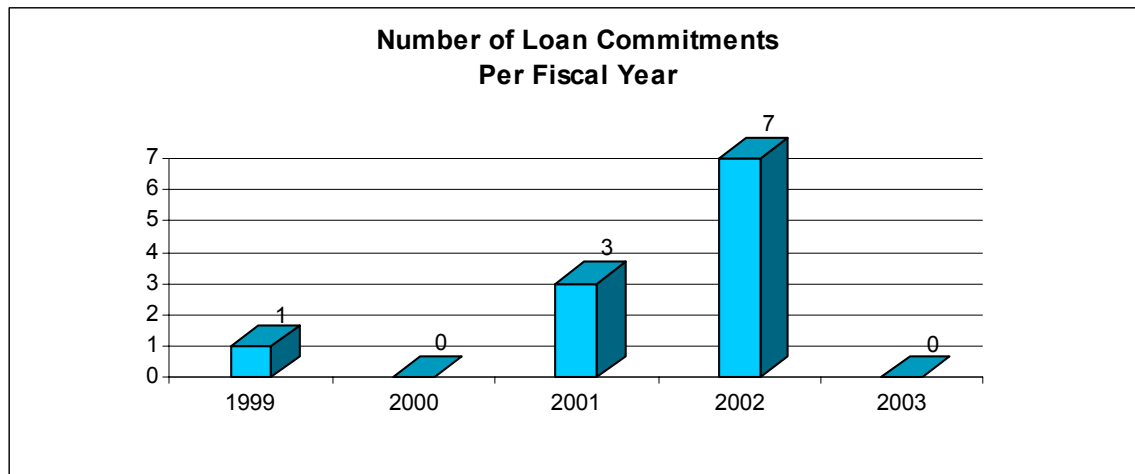


Chart 2 illustrates the number of loan commitments made per year:

Chart 2.



Please also refer to Attachment 1, Committed Projects by State Fiscal Year and Funding Source for detailed transactions.

B. ECONOMIC CONDITION AND OUTLOOK

The State's economy is showing resiliency during its slow comeback from the dramatic economic decline immediately following the tragic events of September 11, 2001. There is optimism that the local economy will continue its modest growth in spite of existing uncertainties relating to the sluggish economic environment on the U.S. mainland, slumping stock market, crisis within the airlines industry, war with Iraq, SARS, and fears of renewed terrorism.

Hawaii's economy showed strength in service-oriented sectors, construction, and other areas of business endeavors not related to tourism that make up our economic base. One major reason cited for this was low interest rates which contributed to a strong local residential construction and real estate market. Agriculture and the high-tech industries were also insulated to some degree from the recent economic decline.

The recovery of Hawaii's main industry, tourism, has been somewhat hindered by renewed fears of war and terrorism. However, as the U.S. mainland and Asian economies gain strength, Hawaii's local tourism industry is expected to further rebound.

Assuming continued modest growth within the local economy and a positive trend for the U.S. and international economies, the economic outlook for the State appears positive in the upcoming years.

Sources:

DEBT publication, <http://www.hawaii.gov/dbedt/uhero/index.html>

Standard & Poor's,

<http://www.standardandpoors.com/Forum/RatingsCommentaries/PublicFinance/Articles/>

First Hawaiian Bank, Economic Forecast, http://www.fhb.com/hm_econ.htm

Bank of Hawaii, Economic Research Center, <http://www.boh.com/econ/index.asp>

Comprehensive Annual Financial Reports, FY2002, of City and County of Honolulu, County of Hawaii, County of Maui, and County of Kauai.

C. MAJOR INITIATIVES

1. The 2002 Hawaii legislature provided match funds pursuant to Act 259/01, as amended by Act 177/02, in the amount of \$1,551,000.00 for the DWTRLF.

An overview of the DWTRLF program for FY 2003 includes the following:

- a. Funds withdrawn from the federal Automated Clearinghouse (ACH): \$3,182,157.30
 - b. State matching funds for FY 2002 Federal Capitalization Grant provided: \$1,551,000.00
 - c. State match funds distributed: \$ 125,603.00
 - d. Loans executed: Interim Loan Agreements: \$0.00
Final Loan Agreements: \$0.00
Total Loans Executed: \$ 0.00
 - e. Principal repayment received: \$ 473,600.61
 - f. Interest repayments received: \$ 143,010.57
2. The award of low-interest DWTRLF loans is a two-step process. First, an Interim Loan Agreement is prepared and signed. Second, the Final Loan Agreement is processed and executed.
 - a. There were no Interim Loan Agreements executed in FY 2003.
 - b. There were no Final Loan Agreements processed and executed in FY 2003.

3. The following DWTRLF projects, awarded Interim Loan Agreements in previous fiscal years, continued to be processed for their Final Loan Agreements during FY 2003.

County	Project	Project Location	Loan Amount
Kauai	<u>Rehabilitation of 27"Steel Pipe, Hanapepe-Eleele Water System</u> (Interim loan agreement signed, Final loan agreement in process)	Senate District 7 House District 16	\$ 691,134.00
Kauai	<u>Replace Pipeline at Hanapepe River Crossing and Control of Slope Failure at Hanapepe Well #3</u> (Interim loan agreement signed, Final loan agreement in process)	Senate District 7 House District 16	\$1,345,040.00
<u>TOTAL FINAL LOAN AGREEMENTS IN PROCESS</u>			<u>\$2,036,174.00</u>

D. GOALS AND ACCOMPLISHMENTS

Safe Drinking Water Act, Section 1452(b) requires the State to prepare a plan identifying the intended uses of the funds in the SRF and describing how those uses support the goals of the SRF. The Intended Use Plan (IUP) must be prepared annually and provided for public comment and review. The primary purpose of the IUP is to identify proposed annual intended uses of the amounts available to the SRF. The secondary purpose of the IUP is to facilitate the negotiation process for the capitalization grant agreement and schedule of grant payments. Therefore, the IUP must be subjected to public comment and review before being submitted to EPA. EPA should receive the IUP no later than the date of the submittal of the capitalization grant application.

The following information must be included in the IUP:

1. List of Projects;
2. Description of Criteria and Method Used for Distribution of Funds;
3. Description of the financial status of the DWTRLF Program;
4. Description of the Short and Long Term Goals;
5. Description of amounts transferred between the DWTRLF and the WPCRF;
6. Description of the set-aside activities and percentage of funds, that will be funded from the DWSRF capitalization grant, including DWTRLF program administrative expenses allowance, PWSS program support, technical assistance, etc.;
7. Description of how a State disadvantaged community program will define a disadvantaged system and the amount of DWTRLF funds that will be used for this type of loan assistance.

As a condition of receiving the EPA Capitalization Grant for the State Revolving Fund, the State must agree to promulgate an IUP annually. By year end, in the Annual Report, the State must address its contribution of time and effort in achieving the long-term and short-term goals as established in the IUP for the year.

The Long and Short Term Goals were presented in the Intended Use Plan for FY 2003 which was published on March 25, 2002. The following describes the results relative to these stated goals:

Long-Term Goals:

1. To assist as many water purveyors as possible to attain compliance with State and Federal Drinking Water Regulations through our low interest loan program.

Work is progressing to qualify the Honolulu Board of Water Supply as a participant in the loan program. Loans to this single water supplier will significantly expand the potential impact of the Hawaii DWSRF, enabling the program to reach an additional sixty-four percent of the population of the State served by public water systems.

The completion of the basic loan agreement documents will make DWSRF loans available to water systems serving more than eighty-six percent of the population served by public water systems in Hawaii.

No progress was made during FY2003 to issue loans to private water suppliers; however, the DWSRF program is investigating the possibility of hiring a contractor to develop procedures.

2. To Maintain the DWSRF Program in Perpetuity.

The Safe Drinking Water Branch continued a conservative approach to expenditures in FY2003 to insure the perpetuity of the DWSRF Program.

3. To develop a linked deposit or other program to assist in financing improvements to privately owned public water systems.

No significant progress was made in this area during the reporting period. Limited interest was expressed by a single banking institution; however, talks have not progressed in recent months. In addition, it has been reported that applicable rules in Hawaii for financial institutions for this form of loan transaction appear to make it an unattractive mechanism from the financial institution's perspective. Further investigation of this report is necessary to determine the feasibility of the linked deposit as a means of financing loans to private water suppliers.

Short-Term Goals:

1. Initiate development of a program to obtain deficiency and compliance information from the Safe Drinking Water Branch and Public Water Systems to identify potential projects which will assist in protecting the public health and environment, protect the drinking water of the state and may

encourage consolidation of small water systems with larger water systems.

The Hawaii DWSRF program will continue to receive violation information from the Compliance Section of the SDWB; however, at the current time, the water system which is in greatest need of corrective action is a private system which cannot receive DWSRF funding due to a lack of procedures to make loans to private water systems.

2. Continue development of a system to track the currently required tracking items which may include accounting, management, set-asides, compliance and customer service concerns.

The State has been working with Northbridge Environmental Corporation in developing an Access Database program capable of tracking and reporting necessary items in the DWSRF program. Integration of the complex State of Hawaii accounting system to the Northbridge tracking program has posed challenges and taken extensive time in addition to the basic database development challenges. Work continues on the program development and completion of the system is now expected in mid 2004.

3. Initiate modification to the Functional Procedures to reflect and meet the DWSRF program requirements and needs.

Reviews, revisions and updates of the Functional Procedures continue throughout the program. The Environmental Review procedure was revised several times in the last year as new information was obtained from EPA.

4. Continue to integrate the Capacity Evaluation program with the DWSRF loan program.

The Capacity Evaluation program continues to work with several small private public water systems to review and evaluate their technical, managerial, and financial status and condition.

E. COMPLIANCE MATTERS

A performance evaluation was conducted of the Drinking Water State Revolving Fund covering the period ending December 2002. This evaluation expressed concern over the Hawaii Program's failure to meet binding commitment required by federal regulations. The performance evaluation report (PER) required the Hawaii program to develop a corrective action plan (CAP) to bring the binding commitment into compliance. Hawaii prepared a Corrective Action Plan and submitted it in June 2003. The CAP identifies the following major factors for the relatively slow initial rate of binding commitments.

1. Staff unfamiliarity of a new State Revolving Fund program.
2. Overtaxing the resources of the Clean Water SRF staff to lend assistance to the new DWSRF program.
3. Client unfamiliarity with the DWSRF loan program.
4. The state's major water supplier, the Honolulu Board of Water Supply was initially not

interested in participating in the loan program, but has recently expressed interest in using the program.

5. Lack of a program which enables loans to private water suppliers.

The CAP also identifies a number of factors and activities which will improve the binding commitment rate. The major factors and activities which were identified are as follows:

1. The CAP identifies a list of projects and schedules which will bring the binding commitment rate back into compliance.
2. The CAP identifies the fact that the Honolulu Board of Water Supply is now reviewing loan agreement documents which will expedite loan processing.
3. The DWSRF program will continue to pursue link deposit as a means of issuing loans to private water suppliers.
4. The DWSRF program will attempt to contract for the development of procedures for a private loan program.
5. The DWSRF program staff will revisit the counties to encourage them to increase their use of the program.
6. The State will attempt to fill the DWSRF program positions which are now vacant to provide the necessary resources to accomplish all tasks.

The CAP also identified qualifying related uses of the Capitalization Grant funds in the event that the binding commitment is not met. These are presently considered alternatives for the program.

DOH has complied with the conditions of the DWTRLF program operating agreement. DOH has met and will continue to be in compliance with the following conditions as described in the Operating Agreement.

- I. Environmental Review - each DWTRLF project has undergone an environmental assessment and review. Environmental assessment documents were prepared by the County Boards in accordance with HRS Chapter 343 (Environmental Impact Statements) and HAR Chapter 11-200, and were submitted to the Office of Environmental Quality Control (OEQC) of the State of Hawaii for review and publication.
- II. Intended Use Plan - the Intended Use Plan for 2003 was completed in March 2002 and published on March 25, 2002, and finalized on May 17, 2002.

FINANCIAL SECTION

The following is a summary of operations for the fiscal year ended June 30, 2003. The Department of Health (DOH) considers the DWTRLF to be a special revolving fund. The fund was established to receive proceeds from specific revenue sources such as Federal Capitalization Grants, State Capital Improvement Project (CIP) Appropriation for State Match, loan repayments, and interest earnings from investments relating to the fund. Under the DWTRLF, DOH established several accounts (activity codes) for specific revenue sources. These funds are legally restricted for use to fund expenditures for the drinking water infrastructures, allowable costs for the program set-aside activities under the Safe Drinking Water Act, and the administrative cost, relating to the operation and maintenance of the DWTRLF Program.

A. INTERNAL CONTROLS

The DWTRLF Program is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments are required to assess the expected benefits and related costs. The objective of an internal control system is to provide the program with reasonable, but not absolute, assurances that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed with proper authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles.

The DWTRLF Program is also responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to federal and state financial assistance programs.

We believe that the DWTRLF internal accounting control adequately safeguards assets and provides reasonable assurances of proper recording of financial transactions.

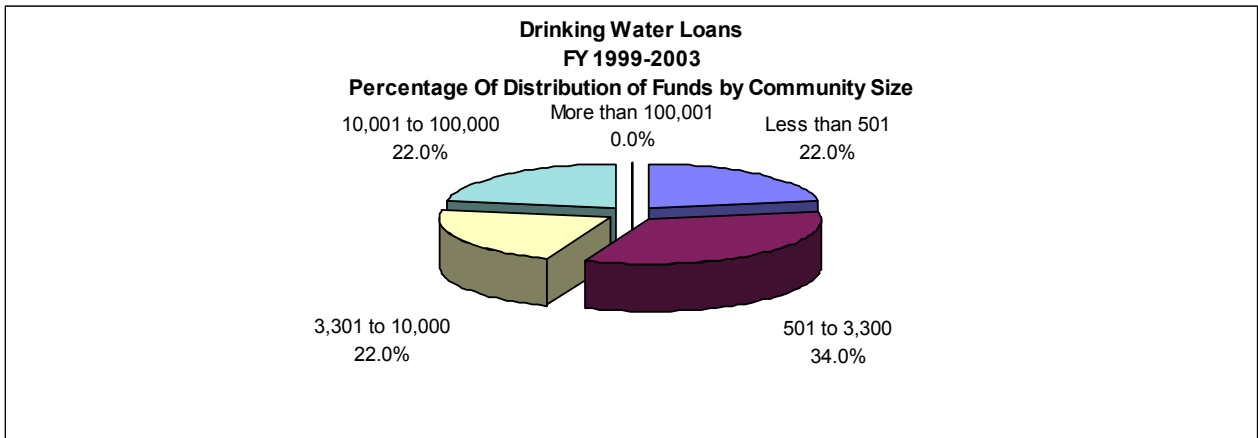
B. PROGRAM ADMINISTRATION AND STATISTICAL INFORMATION

1. Drinking Water State Revolving Fund Capitalization grants:

The DOH has not received the \$8,052,500.00 capitalization grant from the Safe Drinking Water Act, FY 2002 Appropriation as of June 30, 2003.

As of June 30, 2003, DOH has received a total of \$42,690,000.00 in federal capitalization grants (See Attachment 2, Note E). Of the capitalization grants received, \$9,948,376.00 has been set aside for activities relating to the administration of the loan program and to support other drinking water program initiatives. DOH designated the remaining balance of the capitalization grant of \$32,741,624.00 for the DWTRLF loan funds. DOH has lent out \$12,543,670.00 of federal capitalization grant funds and \$4,050,492.00 of state match funds to the water boards of three major counties of Hawaii. The federal funds of the DWTRLF program were also used to benefit communities of all sizes in Hawaii. The distribution of federal funds according to community size is illustrated in Chart 3.

Chart 3.



The recipients of Federal funds are required to make positive efforts to procure Minority Business Enterprises (MBE) and Women's Business Enterprises (WBE) for the State Revolving Fund (SRF) projects. The Department of Health agreed to the following fair share goals of MBE and WBE:

	<u>MBE</u>	<u>WBE</u>
Construction	50%	4%
Services	29%	7%
Supplies	21%	2%
Equipment	27%	2%

In FY 2003, DWTRLF loan recipients did not award any drinking water construction contracts to MBE or WBE. Therefore, no federal loan funds were awarded to minority owned business enterprises and women owned business enterprises.

Also, during the FY 2003, the program procured services, supplies, and equipment contract with set-aside funds as follows:

	<u>Total Amount</u>	<u>Amount Awarded to MBE</u>	<u>Percentage Of MBE Utilization</u>	<u>Amount Awarded to WBE</u>	<u>Percentage Of WBE Utilization</u>
Service	\$195,054.28	\$154,913.14	79.42%	\$0.00	0%

2. Executed Loan Agreements/Binding Commitments:

As of June 30, 2003, DOH had committed \$12,543,670.00 of federal capitalization grant funds and \$4,050,492.00 of state match funds to DWTRLF projects (See Attachment 1).

At the end of FY 2003, the DWTRLF had \$29,711,709.26 available for loans. The balance of available funds consisted of: Capitalization Grant Fund of \$20,197,954.00, State match of \$6,637,508.00 and loan repayment and investment funds of \$2,876,247.26.

As of June 30, 2003, the DWTRLF had a total of 12 projects, worth \$22,266,596.00, awaiting funding. DOH anticipates that some of these projects will be funded in FY 2004.

3. State Match:

Pursuant to Appropriations Act 259/01, as amended by Act 177/02, the 2002 State Legislature appropriated \$1,551,000 in general obligation bond funds for the purpose of providing the required state match for the Federal Fiscal Year (FFY) 2002 State Revolving Fund Capitalization Grant. The required State Match was transferred to the DWTRLF in FY 2003.

During the year, the program disbursed \$125,603.00 of State Match funds for the construction of drinking water projects to various counties.

4. Loan Repayments and Investment Interest:

Loan repayments are deposited into the following DWTRLF accounts: principal from repayments - account code 422, interest from repayments - account code 423, and investment interest - account code 424. In FY 2003, DOH received \$473,600.61 from principal repayment, \$143,010.57 from interest repayment, and \$285,280.70 from investment interest. At the end of FY 2003, DWTRLF had a balance of \$2,876,247.26 from principal and interest repayments and investment earnings.

C. OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The program's financial report consists of the financial statements, notes to the basic financial statements, and other pertinent information which are described as follows:

1. Fund Financial Statements

The DWTRLF consists of a group of related accounts which allows the program to categorize funds and revenues into specific program activities and objectives. The DWTRLF program uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the DWTRLF are categorized as proprietary funds.

2. Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to fully understand the financial data.

3. Other Information

In addition to the basic financial statements and accompanying notes, the report also presents other supplemental information. Much of the supplemental information has been requested by

EPA and has been gathered and presented in a format that has been agreed to by EPA and the program.

Tables 1 & 2 summarizes and compares the financial position of the DWTRLF program for fiscal years 2002 and 2003.

Financial Analysis of Enterprise Funds

The DWTRLF program's basic financial statements are compiled in an enterprise fund format. Table 1 presents Net Assets and Table 2 presents Revenues, Expenses & Changes in Net Assets.

Summary of Net Assets

Table 1 compares the DWTRLF program's Statement of Net Assets for the fiscal years ending June 30, 2003 and June 30, 2002.

Table 1.

State of Hawaii		
Drinking Water Treatment Revolving Loan Fund		
STATEMENT OF NET ASSETS		
ASSETS	June 30, 2003	June 30, 2002
Current Assets		
Cash and cash equivalents in state		
Treasury	\$10,673,734.99	\$ 8,104,509.13
Loan fees receivable	74,029.72	12,342.25
Accrued interest	32,568.99	16,853.82
Due from other funds	395,000.00	139,986.58
Current maturities of loans receivable	<u>573,652.24</u>	<u>460,388.01</u>
Total current assets	<u>11,748,985.94</u>	<u>8,734,079.79</u>
Loans receivable, net of current maturities	10,650,624.33	9,034,534.88
Office equipment, net of accumulated depreciation	<u>133,138.23</u>	<u>152,437.99</u>
TOTAL ASSETS	<u>\$22,532,748.50</u>	<u>\$17,921,052.66</u>
LIABILITIES AND NET ASSETS		

Current liabilities		
Payroll Payable	\$ 7,739.12	\$ 7,949.52
Account payable	<u>-</u>	<u>-</u>
Total current liabilities	<u>7,739.12</u>	<u>7,949.52</u>
Net assets		
Invested in capital assets	133,138.23	152,437.99
Restricted	22,391,871.15	17,760,665.15
Unrestricted	<u>-</u>	<u>-</u>
Total net assets	<u>22,525,009.38</u>	<u>17,913,103.14</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$22,532,748.50</u></u>	<u><u>\$17,921,052.66</u></u>

Restricted net assets totaled \$22,391,871.15 at year end. These balances consisted primarily of cash equivalents, investment and loan interest receivable, loan principal payments due in 2004, and other receivables, which totaled \$11.7 million at the end of the fiscal year. The two most significant sources of non-operational revenue were contributions received from the State Appropriation Act 259/01, as amended by Act 177/02 of \$1,551,000 and the federal contribution funds received totaling \$3,182,157.30. These amounts are shown in the Statement of Revenues, Expenses & Changes in Net Assets (See Table 2).

Summary of Changes in Fund Net Assets

Table 2 summarizes the changes in fund net assets for the current fiscal year which reports the results of operations of the DWTRLF's Enterprise Funds.

Table 2.

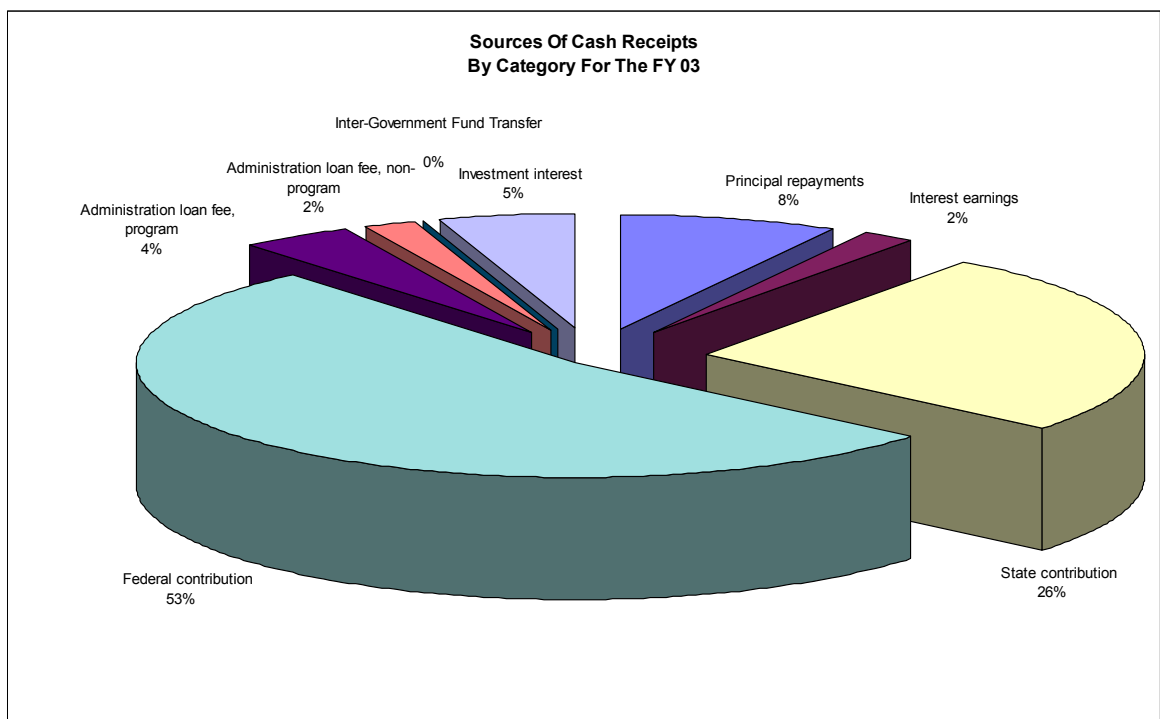
State of Hawaii		
Drinking Water Treatment Revolving Loan Fund		
STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS		
	June 30, 2003	June 30, 2002
Revenues		
Interest earnings from Loans	\$ 158,725.74	\$ 131,423.67
Administration loan fee earnings	<u>371,478.42</u>	<u>260,145.80</u>
Total Revenues	<u>530,204.16</u>	<u>391,569.47</u>
Expenses by Program Activities:		
Administrative Cost - 4% set-aside	188,999.31	278,202.62
Admin. Technical Assistance - 4% set-aside	-	498.83
State Program Management - 10% set-aside	314,649.52	67,622.61
Source Water Protection - 10% set-aside	-	49.99
Capacity Development - 10% set-aside	88.00	731.54
Operator Certification - 10% set-aside	5,119.40	3,055.52
Water Protection Program - 15% set-aside	185,587.03	113,743.18
Wellhead Protection Program - 15% set-aside	(1,430.00)	1,430.00
Technical or Financial Assistance - 15% set-aside	158,420.00	96,750.00
Admin Loan Fee - Program	13,051.20	1,616.96
Admin Loan Fee - Non Program	70,713.43	66.83
Small Systems Technical Assistance - 2% set-aside	<u>1,858.03</u>	<u>6.75</u>
Total Expenses	<u>937,055.92</u>	<u>563,774.83</u>
EXPENSES (OVER)/UNDER REVENUES	<u>(406,851.76)</u>	<u>(172,205.36)</u>
Non-operating Revenues		
Federal contribution	3,182,157.30	2,843,954.71
State matching contribution	1,551,000.00	1,551,000.00
Interest earnings from Investment	285,280.70	271,613.33
Inter-Government Fund Transfer	<u>320.00</u>	<u>-</u>
Total Non-operating Revenues	<u>5,018,758.00</u>	<u>4,666,568.04</u>
EXCESS REVENUES OVER EXPENSES	<u>4,611,906.24</u>	<u>4,494,362.68</u>
Net assets at July 1, 2002 and 2001	17,913,103.14	13,418,740.46
Net assets at June 30, 2003 and 2002	<u>22,525,009.38</u>	<u>17,913,103.14</u>

Interest earnings from investments of the DWTRLF's cash in the State of Hawaii treasury generated \$285,280.70 for the FY 2003. The total interest earnings from investments increased by \$13,667.37 as compared to the amount earned in FY 2002 (Table 2).

Note: Hawaii Revised Statutes Section 38-3 requires collateralization of all public funds, except to the extent that the deposit at each financial institution is insured under the laws of the United States. Acceptable securities include: bonds, notes, bills and certificates of indebtedness of the United States or its agencies; bond notes or other indebtedness of the State of Hawaii or its counties or any other state or county of the United States; and any asset of the depository eligible to secure advances from the Federal Reserve Bank in an amount equal to their market value but not to exceed par value.

Chart 4 below shows the sources of the cash receipts for the FY 2003.

Chart 4.



In FY 2003, the DWTRLF received \$216,876.49 in program income administration loan fees and \$92,914.46 in non-program income administration loan fees. The program income administration loan fees were collected from loans made with federal funds. The non-program income administration loan fees were collected from loans made with state funds.

Total federal contribution received from the EPA in FY 2003 totaled \$3,182,157.30. This was \$338,202.59 higher than the previous year. Beginning in 2001, capitalization grant receipts are required to be recorded as revenue, rather than as contributed capital as in previous years. Two major factors contribute to the amount of grant revenue received. First, is the number and size of

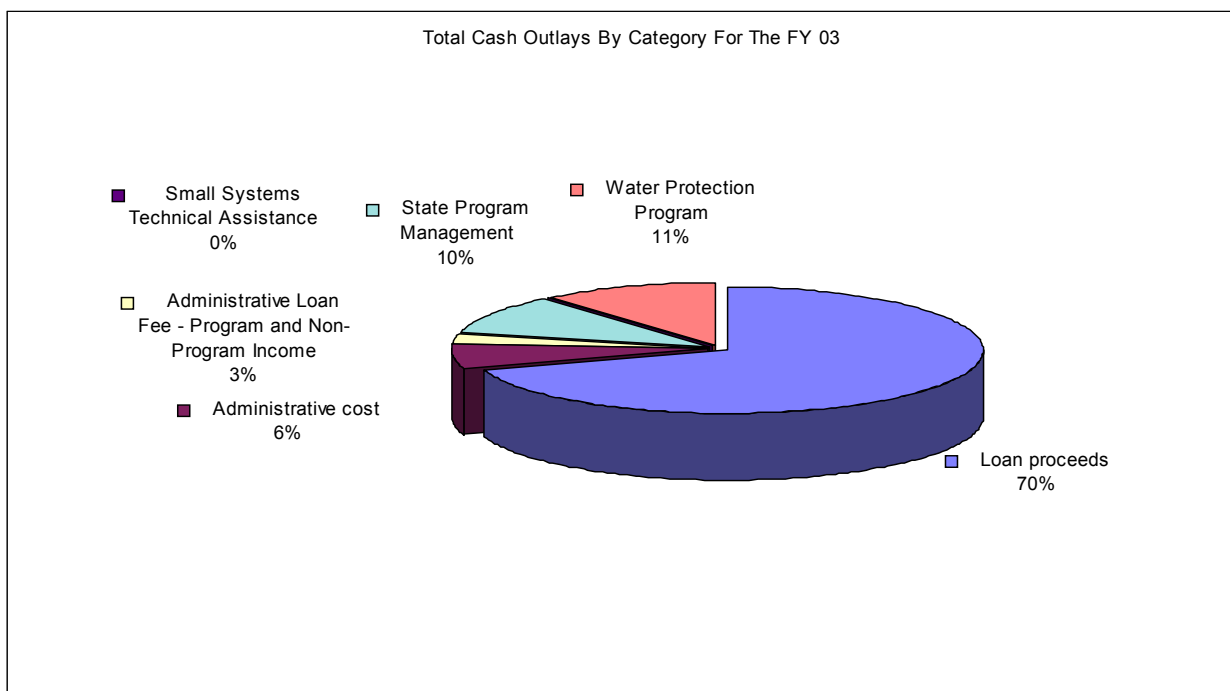
loans made in the revolving funds during the year. The second factor is the timing of payment requests submitted by borrowers for project cost reimbursement. Each payment request generates a draw from the DWTRLF program's Automated Clearinghouse (ACH) system.

Please refer to the notes to the basic financial statements for an explanation of the set-aside programs funded by the DWTRLF. These programs directly fund costs incurred for special programs to aid the improvement of safe drinking water systems. As program costs are incurred, EPA grant funds are drawn for those specific purposes. The activity in these set-aside programs is gaining momentum and the Federal contribution and related expenses for 2003 totaled \$971,411.39 and \$834,288.23, respectively.

The State does not contribute any funds for the cost of administering the DWTRLF Program. On May 17, 2000, DOH implemented a loan fee program to generate revenue for the cost of administering the DWTRLF Program and the drinking water related programs. The charges for the administering cost included the salaries and benefits of the employees. The DOH does not charge any indirect costs to the DWTRLF for costs incurred from supporting activities of the State DWTRLF.

The DWTRLF program disbursed \$2,202,867.99 of loan proceeds for the DWTRLF loan project during the FY 2003. As of June 30, 2003, the program expenditures (cash outlays) were: \$190,295.63 for direct administrative cost of operating the DWTRLF program (4% Set-Aside), \$83,764.63 for administrative loan fee activities, \$299,557.54 for the State Program Management (10% Set-Aside), \$342,577.03 for the Water Protection Program (15% Set-Aside), and \$1,858.03 for the Small Systems Technical Assistance (2% Set-Aside). Chart 5 below shows the significance of loan proceeds in relation to all costs associated with the DWTRLF's operations.

Chart 5.



Administration (4%)

The federal law requires the DWTRLF program to be operated in perpetuity. Because the State does not contribute any funds to the cost of administering the DWTRLF program and its supporting activities, in FY 2000, the program implemented loan fees to generate revenue to help pay for the cost of administering the DWTRLF program. The cost to administer the DWTRLF program activities for FY 2003 was \$274,060.26. Of this amount, \$190,295.63 was paid for by federal cap grant funds; \$13,051.20 was paid for by program loan fees; and \$70,713.43 was paid for by non-program loan fees.

The program completed a priority list, developed the Intended Use Plan, and prepared the capitalization grant application. The highlights of the program activities are listed as follows:

1. The Program continued to service eleven project loans.
2. The Program reviewed planning documents (including the preliminary engineering reports, plans and specifications, environmental assessment documents, and federal requirement documents) for eight projects.
3. The Program conducted twelve (12) construction inspections of ongoing DWTRLF projects under construction.

Small Systems Technical Assistance (2%)

\$1,858.03 was expended in assistance of needs survey. Assistance to selected small systems is being provided through capacity efforts provided for by the two-year technical assistance contract.

State Program Management (10%)

The Safe Drinking Water Act Amendments of 1996 provided that up to ten percent of the DWSRF Capitalization Grant could be used for State Program Management. These funds were generally delegated to support four major activities.

1. Source Water Protection Program

Hawaii source water protection efforts remained focused in the delineation of the source water assessment areas for sources of public water systems. Once this is complete, the Hawaii program will move into the implementation stages of the program.

2. Public Water System Supervision Program

The Hawaii Public Water System Supervision Program continues to rely on this source of funding to support its activities. Among the major accomplishments of FY2003 are:

Backflow Prevention Training class, September 9-13, 2002.

Backflow Prevention Device Troubleshooting class, June 2003. This was a one-day class to teach troubleshooting of various backflow prevention devices.

Revision of Chapter 11-20, Hawaii Administrative Rules which adopts the state versions of the Interim Enhanced Surface Water Treatment Rule, Stage 1 Disinfectant/Disinfection By-Products Rule and the Lead and Copper Rule Minor Revisions as well as other revisions including the raising of the maximum contaminant level for fluoride to match the federal level of 4 milligrams per liter, the lowering of state standard for 1,2,3-Trichloropropane to 0.6 mcg/l, the deletion of the former unregulated contaminants list, allowance for additional microbial testing procedures for e. coli, and more. These changes qualify the state to submit primacy package applications for the I ESWTR, D/DBPR, the LCRMR, and the Phase II/V SOC/IOC Rule.

Funds from this set-aside were also used to maintain critical legal support from our Attorney General's Office.

Work to develop a request for proposals to conduct a sanitary survey of the Honolulu-Windward-Pearl Harbor water system has been initiated. The contract will be issued after training in sanitary surveys by the Drinking Water Academy is conducted in February or March of 2004.

3. Capacity Development Program

Work to revise the Capacity Development Strategic Plan for Existing Public Water Systems was initiated during FY2003. This work was performed to comply with later guidance on the plan. A draft plan is now being reviewed.

4. Operator Certification Program

The SDWB continued to administer an operator certification program for water treatment plant operators and distribution system operators.

From July 1, 2002 to June 30, 2003, the Board of Certification of Operating Personnel in Public Water Systems met four times. During this period:

- 96 Applications were received for certification review;
- 25 Individuals were tested for the WTPO certification (Examinations were held on July 30, 2002 and January 28, 2003);
- 74 Individuals were tested for DSO certification (Examinations were held on October 28-30, 2002 and April 28-29, 2003);
- 12 Reciprocal certifications were issued;
- 18 Individuals passed the WTPO certification examinations;
- 41 Individuals passed the DSO certification examinations;

- 183 WTPO certifications were active on June 30, 2003;
- 352 DSO certifications were active on June 30, 2003;
- 7 Public water systems required to have Level 1 certified water treatment plant operators by the level of the plant;
- 7 Public water systems required to have Level 2 certified water treatment plant operators by the level of the plant;
- 5 Public water systems required to have Level 4 certified water treatment plant operators by the level of the plant; and
- 126 Public water systems with at least one distribution system operator certified at the level of the distribution system of the water system.

Local Assistance and Other State Programs (15%) [Water Protection Program]

The two major contracts which were issued in FY2002 continued to be in effect as scheduled during FY2003.

Training Contract

This contract is proceeding as scheduled with another year of training classes scheduled.

Technical Assistance Contract

The completion date of this contract which was two years originally, was extended to December 2003 due to difficulties in locating systems which were willing to participate in the program.

D. CREDIT RISKS OF THE DWTRLF

The program independently performed a Financial Capability Analysis for each county to assess their credit risks for FY 2003. The review primarily focused on the applicants' financial stability.

An important component of the financial review is an analysis of a number of key financial ratios. The program monitored the following key financial ratios:

1. Socio-economic Indicators which includes:
 - a. Annual Population Change;
 - b. Percentage of Poverty Level;
 - c. Per Capital Income (PCI);
 - d. Median Household Income (MHI); and
 - e. Taxes as % of MHI or PCI.
2. Financial Operations Indicators:
 - a. Debt Service Ratio;
 - b. Debt Per Capita;
 - c. General Fund Operating Ratio; and
 - d. Bond Rating.

In general, the more highly rated water and sewer enterprises share an important fundamental characteristic with other highly rated debt: a strong underlying economic basis and service area. Nearly all highly rated enterprises are located in areas characterized by solid, steady growth in a strong and diverse service area. Although, there is no correlation between a general obligation bond rating and a water and sewer enterprise rating, the common themes of the economic fundamentals should result in similar ratings. Indicators such as customer growth, balance of customers between residential, commercial and industrial, new connections, income trends, and the outlook for economic performance and the ability to withstand economic stresses are important considerations for an enterprise.

Table 3 contains specific information regarding the credit worthiness of the three DWTRLF recipients. The table shows the credit rating categories for these recipients. The G.O. Bond credit agency, Standard and Poor's, gave every Hawaii county's board of water or water supply an "A" or "A plus" rating. In summary, the DOH feels that the credit pool of DWTRLF's loan portfolio have a high degree of solvency.

Table 3.

<u>Recipients</u>	<u>Committed Amount</u>	<u>G.O. Bond Rating</u>	<u>Percentage of DWTRLF Loan Portfolio</u>
County of Hawaii Water Board	\$ 3,865,036.00	A2	23.29 %
County of Maui Board of Water Supply	\$ 7,840,087.00	Aa3	47.25 %
County of Kauai Board of Water Supply	<u>\$ 4,889,039.00</u>	A1	<u>29.46 %</u>
Totals	<u>\$16,594,162.00</u>		<u>100.00%</u>

E. OTHER INFORMATION

This report was prepared in accordance with the Generally Accepted Accounting Principles (GAAP) and reporting requirements by EPA.

Independent Audit: The accounting firm, Grant Thornton LLP, was selected by the DOH to perform the financial audit of the DWTRLF Program. Although the activities and financial statements for fiscal year 2003 are unaudited as of the date of this report, Grant Thornton LLP did

perform an annual financial audit of the DWTRLF Program for FY 2002. The auditor's report on the FY 2002 DWTRLF financial statements was published on October 11, 2002. On page 23 of the audit report, the report reads, "In our opinion, except for not meeting the requirement for completing environmental reviews prior to the start of projects as discussed in the preceding paragraph, the State of Hawaii Drinking Water Treatment Revolving Loan Fund complied, in all material respects, with the requirements governing types of service and types of costs allowed or unallowed; matching; level of effort or earmarking requirements; special reporting requirements; special tests or provisions, and claims for advances and reimbursements that are applicable to its major Federal financial assistance program for the year ended June 30, 2002."

The auditor's report on the DWTRLF financial statements for FY 2003 will be published sometime in November 2003.

Program information: For any further information regarding this report, please contact the Wastewater Branch at: (808) 586-4294 or Safe Drinking Water Branch at: (808) 586-4258.

ATTACHMENT 1

**COMMITTED PROJECTS BY STATE FISCAL YEAR
AND FUNDING SOURCE**

Page 1 of 2

Source of Loan Funds

Note: Legend located on page 2

State of Hawaii
Drinking Water Treatment Revolving
Loan Fund
Committed Projects by State Fiscal Year and Funding Source

Page 2 of 2

June 30, 2003

← Source of Loan Funds →

<u>Project Description</u>	<u>Rate</u>	<u>Loan Amount</u>	420 Federal <u>SRF</u>	421 State <u>SRF</u>	422 Principal from <u>Repayment</u>	423 Interest from <u>Repayment</u>	424 Interest from <u>Investment</u>
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Terminated Projects:

NONE

Legend:

* Interim Loan Agreement never issued, Binding was based on a Binding Commitment letter for the amount stated.

** Interim Loan Agreement never issued, Binding was based on the Final Loan Agreement date.

^ Kamole Water TP: Initial binding commitments totaled \$7,968,579, with 39.09% of this amount made up of state match funds (\$3,115,000 from 421). This total initial binding amount was executed by two separate transactions, \$3,316,379 with 39.09% (\$1,296,244) made up of state match funds and \$4,653,200 also made up of 39.09% of state match funds (\$1,818,756).

1 Supplemental Loan Agreement to the Primary Loan Agreement.

2 Interim Loan Agreements.

3 Final Loan Agreements executed using the Interim Loan Agreement Binding Commitment Date.

4 Final Loan Agreement executed, however, the actual loan amount was lower than the amount shown in the Interim Loan Agreement.

5 Final Loan Agreement executed, however, the actual loan amount was higher than the amount shown in the Interim Loan Agreement.

6 Final Loan Agreement executed, however, the actual loan amount is the same as the amount shown in the Interim Loan Agreement.

ATTACHMENT 2

DWTRLF PROGRAM FINANCIAL REPORT

FINANCIAL STATEMENTS

STATE OF HAWAII DRINKING WATER TREATMENT REVOLVING LOAN FUND (DWTRLF)

June 30, 2003

C O N T E N T S

FINANCIAL STATEMENTS:	<u>Page No.</u>
STATEMENT OF NET ASSETS	1
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS	2
STATEMENT OF CASH FLOWS	3
NOTES TO FINANCIAL STATEMENTS	4
ADDITIONAL REFERENCE:	
LOANS RECEIVABLE	
INTEREST TABULATION	
ADMINISTRATIVE LOAN FEE TABULATION	
SCHEDULE OF ENCUMBRANCES	

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF NET ASSETS

	June 30, 2003	June 30, 2002
ASSETS		
Current Assets		
Cash in State Treasury (note B)	\$ 10,673,734.99	\$ 8,104,509.13
Due from other fund - 376 PWSSP	300,000.00	68,000.00
Due from other fund - 351 ERO Drinking Water	33,000.00	2,000.00
Due from other Fund - 377 Ground Water Protection	50,000.00	69,986.58
Due from other Fund - 352 Ground Water Protection	12,000.00	-
Accrued Interest Receivable (note D)	32,568.99	16,853.82
Accrued Loan Fee Receivable (note D)	74,029.72	12,342.25
Current maturities of loans receivable (note D)	573,652.24	460,388.01
Total Current Assets	<u>11,748,985.94</u>	<u>8,734,079.79</u>
Loan Receivable (note D)	<u>10,650,624.33</u>	<u>9,034,534.88</u>
Other Assets		
Office Equipment	292,013.10	271,057.76
Less: Accumulated Depreciation	<u>(158,874.87)</u>	<u>(118,619.77)</u>
Total Office Equipment	<u>133,138.23</u>	<u>152,437.99</u>
Transportation Equipment	47,233.06	47,233.06
Less: Accumulated Depreciation	<u>(47,233.06)</u>	<u>(47,233.06)</u>
Total Transportation Equipment	<u>-</u>	<u>-</u>
Total Other Assets	<u>133,138.23</u>	<u>152,437.99</u>
TOTAL ASSETS	<u><u>\$ 22,532,748.50</u></u>	<u><u>\$ 17,921,052.66</u></u>
LIABILITIES & NET ASSETS		
Liabilities		
Current Liabilities		
Payroll payable	\$ 7,739.12	\$ 7,949.52
Accounts Payable	<u>-</u>	<u>-</u>
Total Current Liabilities	7,739.12	7,949.52
Net Assets		
Invested in capital assets	133,138.23	152,437.99
Restricted	22,391,871.15	17,760,665.15
Unrestricted	<u>-</u>	<u>-</u>
Total Net Assets	22,525,009.38	17,913,103.14
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 22,532,748.50</u></u>	<u><u>\$ 17,921,052.66</u></u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF REVENUES, EXPENSES & CHANGES IN NET ASSETS

	<u>June 30, 2003</u>	<u>June 30, 2002</u>
Revenues		
Interest earnings from Loans (note B)	\$ 158,725.74	\$ 131,423.67
Administration loan fee earnings (note B)	371,478.42	260,145.80
Total Revenues	<u>530,204.16</u>	<u>391,569.47</u>
Expenses by Program Activities:		
Administrative Cost - 4% set-aside	188,999.31	278,202.62
Admin. Technical Assistance - 4% set-aside	-	498.83
State Program Management - 10% set-aside	314,649.52	67,622.61
Source Water Protection - 10% set-aside	-	49.99
Capacity Development - 10% set-aside	88.00	731.54
Operator Certification - 10% set-aside	5,119.40	3,055.52
Water Protection Program - 15% set-aside	185,587.03	113,743.18
Wellhead Protection Program - 15% set-aside	(1,430.00)	1,430.00
Technical or Financial Assistance - 15% set-aside	158,420.00	96,750.00
Admin Loan Fee - Program	13,051.20	1,616.96
Admin Loan Fee - Non Program	70,713.43	66.83
Small Systems Technical Assistance - 2% set-aside	1,858.03	6.75
Total Expenses	<u>937,055.92</u>	<u>563,774.83</u>
EXPENSES (OVER)/UNDER REVENUES	<u>(406,851.76)</u>	<u>(172,205.36)</u>
Non-operating Revenues		
Federal contribution	3,182,157.30	2,843,954.71
State matching contribution	1,551,000.00	1,551,000.00
Interest earnings from Investment (note B)	285,280.70	271,613.33
Inter-Government Fund Transfer	320.00	-
Total Non-operating Revenues	<u>5,018,758.00</u>	<u>4,666,568.04</u>
EXCESS REVENUES OVER EXPENSES	<u>4,611,906.24</u>	<u>4,494,362.68</u>
Net assets at July 1, 2002 and 2001	17,913,103.14	13,418,740.46
Net assets at June 30, 2003 and 2002	<u>22,525,009.38</u>	<u>17,913,103.14</u>

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

STATEMENT OF CASH FLOWS

Year Ended June 30, 2003

CASH FLOWS FROM OPERATING ACTIVITIES:

Interest income from loans	\$ 143,010.57
Admin Loan Fees	309,790.95
Principal repayments on loans	473,600.61
Disbursement of loan proceeds	(2,202,867.99)
Personnel costs	(273,209.71)
Payments to vendors	(623,887.81)

Net cash flows used in operating activities	(2,173,563.38)
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Cash flows from noncapital financing activities:	4,478,463.88
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Net cash flows provided by noncapital financing activities	4,478,463.88
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Cash flows from capital and related financing activities:

Purchase of equipment	(20,955.34)
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Net cash flows provided by investing activities	(20,955.34)
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Cash flows from investing activities:

Interest from investments	285,280.70
Net cash flows provided by investing activities	285,280.70

NET INCREASE IN CASH	2,569,225.86
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Cash Balance at July 1, 2002	8,104,509.13
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Cash Balance at June 30, 2003	\$ 10,673,734.99
-------------------------------	------------------

Reconciliation of operating income to net cash provided by operating activities:

Operating income	\$ (406,851.76)
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	40,255.10
Changes in assets and liabilities:	
Increase in interest receivable on loans	(15,715.17)
Increase in administrative fee receivable on loans	(61,687.47)
Decrease in accrued salaries and other admin.	(210.40)
Other operating cashflows:	
Principal repayments	473,600.61
Loan proceeds	(2,202,954.29)
Net cash provided by operating activities	\$ (2,173,563.38)

The accompanying notes are an integral part of this statement.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS

June 30, 2003

NOTE A - ESTABLISHMENT AND PURPOSE OF THE DWTRLF

The 1996 Amendments of the Safe Drinking Water Act (the Act), authorizes the Environmental Protection Agency (EPA) to make capitalization grants to states for the purpose of providing loans and other types of financial assistance to public water supply systems for drinking water infrastructure. The Act authorizes loan funding for construction of public drinking water systems. Under the Act, the State of Hawaii (State) will receive up to \$54 million of Safe Drinking Water State Revolving Fund capitalization grants until the year 2003.

The 1997 State Legislature established a Drinking Water Treatment Revolving Loan Fund (DWTRLF) to receive the federal capitalization grants. The DWTRLF is intended to provide loans in perpetuity to public drinking water systems for the construction of drinking water treatment facilities. Such loans may be at or below market interest rates and must be fully amortized within twenty years, with the first repayment of principal and interest occurring no later than one year after the notice to proceed for construction or the final agreement date, whichever is later.

The DWTRLF includes the operations of the Drinking Water Treatment Revolving Loan Funds and the Set-Asides Program Funds. The Set-Aside Programs account for Safe Drinking Water set asides, including administrative grant proceeds and loan fees.

Set Asides

The Safe Drinking Water Act allows the states to “set aside” up to thirty-one percent (31%) of the annual capitalization grant for prevention programs and administration. 1. Up to fifteen percent (15%) (no more than 10% for any one purpose) may be used for prevention projects in water system, including source water protection loans, technical and financial aid for capacity, source water assessments, and wellhead protection. 2. Up to four percent (4%) may be used for administrative costs for loan service. 3. Up to ten percent (10%) may be used to run the State’s public water system supervision program. 4. Finally, up to two percent (2%) of the Department’s capitalization grants may be used for operator training and technical assistance set asides to aid small community systems.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE B - ACCOUNTING POLICIES

1. Financial Statement Presentation

The financial statements are intended to present the financial position and results of operations of only that portion of the funds of the Department of Health, State of Hawaii that is attributable to the transactions of the Fund.

The accompanying financial statements of the Fund have been prepared in conformity with accounting principles generally accepted in the United States of America prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments. This Statement established new financial reporting requirements for state and local governments in the United States of America. It requires new information and restructuring of much of the information that governments have presented in the past. Comparability with reports issued in prior years is affected. The Department implemented these standards for the fiscal year ended June 30, 2002.

Other GASB Statements are required to be implemented in conjunction with Statement 34. Therefore, the Department has implemented the following GASB Statements: Statement 36, Recipient Reporting for Certain Shared Nonexchange Revenues, Statement 37, Basic Financial Statements – Management’s Discussion and Analysis – for State and Local Governments: Omnibus and Statement 38, Certain Financial Statement Note Disclosures.

2. Measurement Focus and Basis of Accounting

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are reported when earned and expenses are reported when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Proprietary funds have the option under GASB 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE B - ACCOUNTING POLICIES (continued)

to elect to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The Fund Program has elected to not apply FASB statements after the applicable date.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services or goods in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the Fund are interest income and administrative loan fees on loans made to county governments. Federal grants and interest income from investments are reported as nonoperating income.

Net assets are restricted when constraints placed on them are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources are not presented as restricted net assets. When both restricted and unrestricted resources are available for use, generally, it is management's policy to use restricted resources first, then unrestricted resources as they are needed.

3. Capital Assets

Capital assets, which include property and equipment, are reported in financial statements. Equipment must be capitalized if the cost is in excess of \$1,000 and the useful life exceeds one year.

Purchased capital assets are valued at cost. Donated assets are recorded at their fair market value at the date of donation.

Depreciation expense are recorded in the financial statements. The straight-line method is utilized over the assets' estimated useful life. Generally, the useful life used for equipment is three years.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE B - ACCOUNTING POLICIES (continued)

4. Administration Costs

The accompanying financial statements do not reflect certain administration costs incurred which are paid for by other sources of funding from DOH. These costs include the DOH's and State's overhead, which the DOH does not assess to the SRF.

5. Fund Accounts

The Fund Program consists of the State Revolving Fund (SRF) and non-SRF activity. The SRF activity consists exclusively of the state match, federal capitalization grant loans, principal loan repayments, and interest from loans and investments. Non-SRF activity consists of administration loan fees and federal set aside funds.

6. Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE C - CASH AND CASH EQUIVALENTS

All monies of the Fund are deposited into the State Treasury. The State Director of Finance is responsible for the safekeeping of cash in the State Treasury in accordance with State laws. The Director of Finance may invest any monies of the State, which in the Director's judgment are in excess of the amounts necessary for meeting the immediate requirements of the State. Effective August 1, 1999, cash is pooled with funds from other State agencies and departments and deposited into approved financial institutions or participates in the State Treasury Investment Pool System. Cash accounts that participate in the investment pool accrue interest based on the average weighted cash balances of each account.

The State requires that the depository banks pledge, as collateral, government securities held in the name of the State for deposits not covered by federal deposit insurance.

Investments can be categorized to give an indication of the level of risk assumed by the Fund. Category 1 includes investments that are insured or for repurchase agreements, collateralized by underlying securities that are so held. Category 2 includes uninsured and unregistered investments for which the broker-dealer in the Fund's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker-dealer but not in the Fund's name.

Since all of the Fund's cash is included in the State cash pool, the category of risk is not determinable at the Fund level.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE D - LOANS RECEIVABLE

At June 30, 2003, the DWTRLF had loans receivable from the following government entities:

Two loans receivable from
County of Kauai, Board of Water Supply; due
in semi-annual payments,
including interest at 1.01% to 1.37%
commencing not later than one year
after project completion or notice to
proceed. Final payment is due not
later than twenty years after project
completion.

\$ 1,573,773.75

One loan receivable from
County of Maui, Board of Water Supply; due
in semi-annual payments,
including interest at 1.55%
commencing not later than one year
after project completion or notice to
proceed. Final payment is due not
later than twenty years after project
completion.

\$ 6,808,394.87

Six loans receivable from
County of Hawaii, Water Board; due
in semi-annual payments,
including interest at 1.01% to 1.37%
commencing not later than one year
after project completion or notice to
proceed. Final payment is due not
later than twenty years after project
completion.

\$ 2,842,107.95

\$11,224,276.57

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE D - LOANS RECEIVABLE (continued)

As of June 30, 2003, accrued interest receivable, accrued administration loan fee receivable as program income, and accrued administration loan fee receivable as non-program income on loans totaled \$32,568.99, 62,158.17, and \$11,871.55 respectively.

Loans mature at various dates through 2022. The scheduled principal payments on loans maturing in subsequent years are as follows:

SFY2004	\$ 573,652.24
SFY2005	\$ 582,988.88
SFY2006	\$ 591,363.79
SFY2007	\$ 600,077.04
SFY2008	\$ 608,747.32
Thereafter	<u>\$ 8,267,447.30</u>
	<u>\$11,224,276.57</u>

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE E - FEDERAL FUNDING AND STATE MATCH

The Fund is capitalized by grants from EPA authorized by Title VI of the Act with matching funds from the State. As of June 30, 2003, EPA has awarded \$42,690,000.00 to the State, of which \$12,590,316.62 has been drawn for loans and set asides. The State has legislated matching funds of \$10,148,500.00, of which \$4,050,492.00 has been committed. The following summarizes the capitalization grants awarded, amounts drawn on each grant, and the balances available for future activity as of June 30, 2003:

Budget Period	FFY	Amount	DWTRLF Cash Draws	EPA Draws (deducted prior to issuance of cap grant)	Funds Available
12/05/97 - 09/30/05	97	\$ 12,558,800.00	\$ 11,172,728.42		\$ 1,386,071.58
09/24/98 - 09/30/06	98	\$ 7,121,300.00	\$ 983,452.05		\$ 6,137,847.95
02/04/00 - 09/30/07	99	\$ 7,463,800.00	\$ 434,136.15		\$ 7,029,663.85
02/26/01 - 06/30/08	00	\$ 7,757,000.00	\$ -	\$ 75,000.00	\$ 7,682,000.00
09/01/02 - 09/30/08	01	\$ 7,789,100.00	\$ -	\$ 24,000.00	\$ 7,765,100.00
		<u>\$ 42,690,000.00</u>	<u>\$ 12,590,316.62</u>	<u>\$ 99,000.00</u>	<u>\$ 30,000,683.38</u>

State of Hawaii
Drinking Water Treatment Revolving Loan Fund
NOTES TO FINANCIAL STATEMENTS (continued)

June 30, 2003

NOTE E - FEDERAL FUNDING AND STATE MATCH (continued)

The following is the State Match for each EPA Capitalization Grant for the DWTRLF.

Federal Fiscal Year	Source of State Funds	20% State Match Amount
97	Act 328/97	\$ 2,511,760.00
98	Act 116/98	\$ 1,424,260.00
99	Act 091/99	\$ 1,492,760.00
00	Act 091/99	\$ 28,400.00
	Act 281/00	\$ 1,523,000.00
	Total 00 Match	\$ 1,551,400.00
01	Act 328/97	\$ 603,240.00
	Act 259/01	\$ 954,580.00
	Total 01 Match	\$ 1,557,820.00
02	Act 177/02	\$ 1,011,500.00
	Act 259/01	\$ 596,420.00
	Act 091/99	\$ 1,840.00
	Act 116/98	\$ 740.00
	Total 02 Match	\$ 1,610,500.00
	Total 20% State Match	\$ 10,148,500.00

ADDITIONAL REFERENCE

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

LOANS RECEIVABLE

Year ended June 30, 2003

Project Number	Executed loan agreements	Loan Amount	Federal Loan receivable as of July 1, 2002	State Loan receivable as of July 1, 2002	Federal amount disbursed July 1, 2002- June 30, 2003	State amount disbursed July 1, 2002- June 30, 2003	Federal principal repayment July 1, 2002- June 30, 2003	State principal repayment July 1, 2002- June 30, 2003	Federal loans receivable	State loans receivable
101-0001	Saddle Road Well "A"	\$ 1,717,380.00	-	-	1,573,941.99	-	31,458.19	-	1,542,483.80	-
107-0001	Kaieie Mauka	\$ 421,129.00	-	-	402,181.00	-	7,906.23	-	394,274.77	-
109-0001	Pahala Well "B"	\$ 375,677.00	-	-	-	-	-	-	-	-
130-0001	Waimea TP Upgrades-Ph. II	\$ 739,210.00	718,383.70	-	-	-	35,651.63	-	682,732.07	-
133-0001	Kukuihaele Well "A"	\$ 365,285.00	-	-	-	-	-	-	-	-
139-0001	Makapala Well	\$ 246,355.00	-	-	226,745.00	-	4,127.69	-	222,617.31	-
213-0001	Kamole Water TP	\$ 7,840,087.00	7,166,103.04	-	-	-	357,708.17	-	6,808,394.87	-
404-0001	Rehab., Hanapepe-Ellele WS	\$ 691,134.00	-	-	-	-	-	-	-	-
404-0002	Replace Pipeline at Hanapepe	\$ 1,345,040.00	-	-	-	-	-	-	-	-
406-0001	Kekaha Well	\$ 1,097,536.00	-	-	-	-	-	-	-	-
410-0001	Dam. Repairs to Kokolau Tun.	\$ 1,755,329.00	1,610,522.45	-	-	-	36,748.70 ^	-	1,573,773.75	-
Total		\$ 16,594,162.00	\$ 9,495,009.19	\$ -	\$ 2,202,867.99	\$ -	\$ 473,600.61	\$ -	\$ 11,224,276.57	\$ -
Rounding		\$ 16,594,162	\$ 9,495,009	\$ -	\$ 2,202,868	\$ -	\$ 473,601	\$ -	\$ 11,224,277	\$ -

^ The official due date for Repayment #1 was July 15, 2002 (SFY 2003), however repayment was received and posted a month early with principal repayment of \$32,574.43 included in June 2002's FAMIS report (SFY 2002).

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

INTEREST TABULATION

Year ended June 30, 2003

	SFY 02 Accrued Interest Receivable	+	SFY 03 Interest Earnings	+	Adjustment	=	SFY 03 Adjusted Interest Earnings*	-	SFY 03 Interest Payments	=	SFY 03 Interest Accrued Receivable
101-0001	\$0.00		\$14,905.60		\$0.00		\$14,905.60		\$10,142.79		\$4,762.81
107-0001	\$0.00		\$2,197.81		\$0.00		\$2,197.81		\$1,253.25		\$944.56
109-0001	\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00 ***
130-0001	\$3,370.50		\$9,551.62		\$0.00		\$9,551.62		\$9,718.89		\$3,203.23
133-0001	\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00 ***
139-0001	\$0.00		\$1,207.30		\$0.00		\$1,207.30		\$654.29		\$553.01
213-0001	\$13,998.44		\$109,009.88		\$0.00		\$109,009.88		\$109,708.63		\$13,299.69
406-0001	\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00 ***
410-0001	(\$515.12)		\$21,853.53		\$0.00		\$21,853.53		\$11,532.72 **		\$9,805.69
	\$16,853.82		\$158,725.74		\$0.00		\$158,725.74		\$143,010.57		\$32,568.99

Notes: * The SFY03 Adjusted Interest Earnings is the sum of the SFY03 Interest Earnings and Adjustment columns.

** Repayment #1 for DW410-0001 was received and posted in June 2002 (SFY02), instead of the scheduled repayment date of July 15, 2002 (SFY03). Therefore, the \$12,208.07 representing the interest portion of Repayment #1 was posted to "SFY02 Interest Payments" rather than SFY03.

*** As of 6/30/03, no disbursements have been made for these projects.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

ADMINISTRATIVE LOAN FEE TABULATION

Year ended June 30, 2003

	SFY 02 Program Accrued Loan Fees Receivable	+	SFY 03 Program Loan Fees Earnings	+	Program Adjustment	=	SFY 03 Program Adjusted Loan Fees Earnings	-	SFY 03 Program Loan Fees Payments	=	SFY 03 Program Loan Fees Accrued Receivable		SFY 02 Non-Program Accrued Loan Fees Receivable	+	SFY 03 Non-Program Loan Fees Earnings	+	Non-Program Adjustment	=	SFY 03 Non-Program Adjusted Loan Fees Earnings	-	SFY 03 Non-Program Loan Fees Payments	=	SFY 03 Non-Program Loan Fees Accrued Receivable		SFY 03 Total Loan Fees Accrued Receivable
DW101-0001	\$0.00		\$33,349.65		\$0.00		\$33,349.65		\$22,549.85		\$10,799.80		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$10,799.80
DW107-0001	\$0.00		\$6,468.51		\$0.00		\$6,468.51		\$4,205.55		\$2,262.96		\$0.00		\$1,617.12		\$0.00		\$1,617.12		\$1,051.39		\$565.73		\$2,828.69
DW109-0001	\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00
DW130-0001	\$8,061.97		\$22,658.05		\$0.01		\$22,658.06		\$23,058.15		\$7,661.88		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$7,661.88
DW133-0001	\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00
DW139-0001	\$0.00		\$3,496.27		\$0.00		\$3,496.27		\$2,195.63		\$1,300.64		\$0.00		\$874.07		\$0.00		\$874.07		\$548.91		\$325.16		\$1,625.80
DW213-0001	\$17,554.71		\$137,820.05		(\$0.00)		\$137,820.05		\$138,696.32		\$16,678.44		\$11,557.58		\$90,737.24		(\$0.00)		\$90,737.24		\$91,314.16		\$10,980.66		\$27,659.10
DW406-0001	\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00
DW410-0001	(\$24,832.01)		\$49,089.72		\$25,367.73		\$74,457.45		\$26,170.99 *		\$23,454.45		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$0.00		\$23,454.45
	\$784.67		\$252,882.25		\$25,367.74		\$278,249.99		\$216,876.49 ^		\$62,158.17		\$11,557.58		\$93,228.43		(\$0.00)		\$93,228.43		\$92,914.46 ^		\$11,871.55		\$74,029.72

Notes:

* Repayment #1 was received and posted in June 2002 (SFY02), instead of the scheduled repayment date of July 15, 2002 (SFY03).
Therefore, the \$24,832.01 representing the loan fee portion was posted to "SFY02 Loan Fees Payments" of the SFY02 Loan Fee Tabulation report rather than SFY03.

^ Total (Program & Non-Program) SFY03 Loan Fee Payments (\$309,790.95) matches the FAMIS transaction total (\$309,790.95) from MBP453-B run page 9,682, source 1136.

State of Hawaii
Drinking Water Treatment Revolving Loan Fund

SCHEDULE OF ENCUMBRANCES

Year ended June 30, 2003

		420				421	426 Admin	425 Loan Fee	430 Loan Fee									
		Federal SRF	422 Account	423 Account	424 Account	State Match	Administrative	Program	Non-Program	432 Account	427 Account	433 Account	434 Account	435 Account	428 Account	429 Account	436 Account	437 Account
101-0001	* Saddle Road Well "A"	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
107-0001	* Kaieie Mauka	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
109-0001	* Pahala Well "B"	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
130-0001	Waimea TP Upgrades-Ph. II	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
133-0001	* Kukuihaele Well "A"	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
139-0001	* Makapala Well	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
213-0001	Kamole Water TP	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
406-0001	Kekaha Well	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
410-0001	Dam. Repairs to Kokolau Tun.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Administrative:																		
Personnel		-	-	-	-	-	-	-	16,835.00	^	-	-	-	-	-	-	-	-
Other Expenditures		-	-	-	-	-	729.00	^	13,000.00	^	-	-	-	-	-	190,506.97	^	-
TOTAL		\$ -	\$ -	\$ -	\$ -	\$ -	\$ 729.00	^	\$ 13,000.00	^	\$ 16,835.00	^	\$ -	\$ 42,951.09	^	\$ -	\$ -	\$ 212,350.00

* Projects were unencumbered. See MBP405-B
July 24, 2003, run pages 5,415 and 5,416.

Legend:
Project encumbrance amounts were based on the (run2.xls) Summary report, which used MBP471-B.
✓ Verified with MBP490-B.
^ Verified with MBPE02-B, Run Pages: 9,565, 9,691, 9,912, 9,913, 9,914, 9,915, and 9,917.

The following is a list of encumbered projects that were unencumbered as of 6/30/03:

		420				421	Total
		Federal SRF	422 Account	423 Account	424 Account	State Match	
101-0001	Saddle Road Well "A"	\$ 143,438.01	\$ -	\$ -	\$ -	\$ -	\$ 143,438.01
107-0001	Kaieie Mauka	15,087.00	-	-	-	3,861.00	18,948.00
109-0001	Pahala Well "B"	300,743.00	-	-	-	74,934.00	375,677.00
133-0001	Kukuihaele Well "A"	292,424.00	-	-	-	72,861.00	365,285.00
139-0001	Makapala Well	15,822.00	-	-	-	3,788.00	19,610.00
406-0001	** Kekaha Well	877,066.00	-	-	-	220,470.00	1,097,536.00
410-0001	** Dam. Repairs to Kokolau Tun.	89,845.98	-	-	-	22,386.14	112,232.12
TOTAL		\$ 1,734,425.99	\$ -	\$ -	\$ -	\$ 398,300.14	\$ 2,132,726.13

** Projects were unencumbered per MBP490-B as of June 30, 2003, but not included on MBP405-B as of July 24, 2003.